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TALKING POINTS FOR THE DCI

We have no hard new information yet on West European government/company plans concerning pipeline sanctions.

--At 6-7 July meetings in Moscow, Soviets reportedly gave West Europeans an additional month--until end of July or early August--to decide what to do about beginning to fulfill their contracts.

--Based on incomplete reporting and on educated conjecture by analysts, we expect at least one of the turbine companies [REDACTED]

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[REDACTED] to go against the sanctions and begin shipping the 20 or so turbines [REDACTED] that are now in Western Europe.

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--Second key test will be [REDACTED] decision whether or not to defy the sanctions and fulfill its contract to produce 40 [REDACTED] rotors.

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The crisis atmosphere is being fed by a constant flow of rhetoric. Press, here and abroad, continues to pound away at disagreement within the US administration on the pipeline issue and to discuss ad nauseum the pluses and minuses of the sanctions.

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The increased trade tensions in other areas (steel, agriculture, DISC, textiles) which have been fueled by the pipeline sanctions are still viewed as manageable by the West Europeans if some semblance of dialogue can be restored.

[REDACTED] however, reporting on last weekend's consultations in Washington on the steel dispute, have relayed the impression that US policy is uncompromising and incoherent. If the charges and counter-charges continue to escalate, within GATT and other forums, increased retaliation for alleged illegal trade practices will become more likely. Such a poisoned economic atmosphere could directly affect West European attitudes toward political issues within the Alliance, such as INF deployment, defense spending, and support of US policies elsewhere including the Middle East and Latin America.

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